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ECONOMIC REGIONALISM: AN EMERGING CHALLENGE TO THE INTERNATIONAL SYSTEM?

Summary

For the better part of five years there has been speculation that the international trading system is moving in the direction of regional blocs rather than global free trade. Even while 105 nations thrash out proposals to expand the rules of the General Agreement on Tariffs and Trade to new areas, many of the participants are involved in negotiations with a more local flavor or are pursuing strategies that lay outside the purview of GATT. Whether this move toward economic regionalism will result in formal agreements or merely lead to informal trade and investment patterns depends on a variety of political as well as economic factors. If regionalism does spread, it is more likely to result from the evolution of North-South relations than the deterioration of the traditionally strong economic ties among industrialized countries.

Introduction

Events of the past year have raised questions about the future of the international political and economic system. The liberalization of Eastern Europe and the move toward European unification have prompted many analysts to conclude that the era of superpower bipolarity is over. As such, some question the relevance of a U.S.-led Western alliance in a multipolar world and see in its place political/security blocs in Europe, Asia and the Western hemisphere. At the same time there is increased interest in whether the world economy is moving in the direction of regionalism and away from internationalism. Much of this speculation has been sparked by the troubled discussions aimed at expanding the rules of the General Agreement on Tariffs and Trade to new areas,

including services, investment and intellectual property rights, and strengthening existing GATT provisions. In other words, if the current GATT negotiations do not produce satisfactory results, some fear that nations will focus their efforts on achieving regional prosperity.

This could take two forms. First, regionalism might entail a turn toward trade pacts among neighboring countries. The earliest moves toward this type of formal regionalism by a major player -- the European Community -- actually began in earnest in 1985, the year before the meeting in Punta del Este, Uruguay that gave birth to the Uruguay Round of multilateral trade negotiations. EC 1992, as the community's plan for economic integration is known, represents a formally established regionalism, with shades of political as well as economic cohesion.

Second, regionalism may occur via a more informal division of labor and capital, structured along North-South dimensions. While this might not inhibit economic relations among industrialized nations to the same extent as formal relations, it might result in separate spheres of economic influence and production patterns around the world. Some analysts argue that this already is occurring in Asia.

Skeptics stress, however, that economic indicators provide no evidence that trade and investment flows are concentrating within regional pools. These analysts point, for example, to the strong trade relations among Japan, the United States and Europe. Moreover, they cite Japan's expanding investment presence in the United States and Europe as additional evidence that the world is not moving toward economic blocs. As such, they believe that predictions of economic regionalism are being offered with little substantive evidence -- or even plausible theoretical arguments. Yet, given the continuing international debate, both the formal and the informal regionalism scenarios deserve consideration.

Formal Regionalism: Free Trade Pacts

Speculation regarding economic regionalism initially focused on the possible emergence of trading blocs. Two factors in the 1980s sparked interest in the conclusion of formal trade pacts. The first was the European Community's 1985 agreement to eliminate among its members the remaining barriers to trade and investment. This decision raised fears in Washington and Tokyo that American and Japanese firms eventually might be denied access to the European market.

Growing frustration with the slow progress being made in the Uruguay Round of multilateral trade negotiations also prompted countries to look at agreements that involved fewer parties. Since tariff barriers around the world have been progressively lowered as a result of previous rounds, Uruguay Round negotiators are tackling much stickier problems, such as intellectual property rights, subsidies, services trade and agricultural policies (see JEI Report No. 25A, June 30, 1989).

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While the Bush administration has made the successful completion of the Uruguay Round its top trade-liberalization priority (see JEI Report No. 18B, May 4, 1990), it has not ruled out bilateral trade agreements, announcing in early June that the United States and Mexico were exploring the possibility of a free trade agreement. The White House's two-track approach is not new. At the same time that the Reagan administration was trying to get a new MTN round going, it was negotiating free trade agreements with Israel (1985) and Canada (1987). Moreover, a U.S.-Japan free trade pact generated a flurry of interest in Washington as well as Tokyo in 1988 (see JEI Report No. 44A, November 18, 1988), but neither government pushed to address the political and substantive obstacles facing such an agreement, particularly after April 1989 when the United States named Japan as a priority country under the Super 301 provision of the 1988 trade act.

The notion of bilateral or regional trade arrangements in the 1990s covers a wide range of interpretations. U.S. and European policymakers discuss free trade pacts under the overall rubric of GATT; that is, the agreements are portrayed as being consistent with the goal of creating an international free trade system. (While trading blocs are not forbidden under the GATT framework, they could pose problems if they raise barriers to countries outside the relationship or cover selective situations.[1]) Indeed, some have argued that bilateral agreements may be an intermediary step between the current situation and global liberalization -- although few have outlined the steps by which the transition would occur.

An alternate reaction to Europe 1992 and the U.S.-Canada Free Trade Agreement is that such pacts eventually will lead to a contraction of world trade. The severity of the Great Depression has been linked with the tendency of countries to establish preferential trade agreements and protect their own markets rather than pursue liberal international trade policies. However, this may be an extreme analogy. Even some of the analysts who foresee negative consequences from trade regionalism are reluctant to predict doom on the scale of the 1930s.

Massachusetts Institute of Technology economist Paul Krugman, for example, expects regional trading blocs to emerge, but he argues that this hardly will be disastrous for the world economy. He suggests that economic regionalism will not result in a significant loss of jobs since dislocated workers simply would move out of export-oriented industries and into industries that formerly were import-intensive. While this might lead to a loss of economic efficiency, Mr. Krugman predicts that it would amount to only about a 2.5 percent decline in this country's gross national product -- the rough equivalent of the 1982 recession.[2]

A Regional Pact in Asia?

Regardless of whether the emergence of free trade agreements is a negative or a positive development, their appearance does not necessarily indicate

[1]Jeffrey Schott, "The Mexican Free Trade Illusion," International Economy, June/July 1990, p. 34.

[2]Japan Economic Journal, May 19, 1990.

that economic regionalism is taking root everywhere. Those who believe that FTAs are an intermediate step in the globalization of world trade tend to look for evidence worldwide of forces leading to similar arrangements. While there is some indication that these arrangements are being considered in Europe and the Western hemisphere, the third leg of the tripod -- Asia -- has had virtually no movement toward a strictly intra-Asian free trade pact. Rather, all discussions of regional trade accords explicitly have included U.S. participation.

While a formal free trade agreement within Asia is unlikely in the near term, the concept of economic regionalism is at the root of a proposal to create a Pacific version of the Organization for Economic Cooperation and Development (see JEI Report No. 44A, November 17, 1989). Originally proposed by Australian Prime Minister Bob Hawke, the first meeting of the newly created Asian-Pacific Economic Cooperation Conference took place in November 1989. Participants in the initial session stated publicly, however, that APEC would not be a trading group. Still, the trade angle has implicit interest. There have been reports, for example in the Far Eastern Economic Review, that some Japanese officials believe APEC eventually may form one pole of a tripolar trading bloc system -- with the United States/Canada, Europe and Asia comprising the three primary trading groups.

The fact remains that APEC is not comprised simply of Asian countries but rather of countries on both sides of the Pacific -- including Japan, Australia, New Zealand, South Korea, members of the Association of Southeast Asian Nations, Canada and the United States. The diversity of the members makes it highly unlikely that APEC will move toward economic integration on anywhere near the scale of the European movement. Instead, the organization is more likely to serve as a forum for discussions of economic issues. As currently conceived, it will supplement multilateral forums, such as GATT, rather than replace them.

Thus, the regionalism question becomes more complicated. The existence of the U.S.-Canada FTA and EC 1992 provides physical evidence of at least a partially regional focus within two of the three "blocs" that allegedly are emerging. (Whether the regional focus will supplant the postwar economic internationalism is another question.) At the same time, though, no such formal arrangement exists in Asia. But is an informal regionalism developing there? Japan's growing influence in the area to the exclusion of other countries -- whether because of a conscious Japanese effort or just a waning interest on the part of non-Asian countries in the region -- might indicate a de facto form of regionalism.

"De Facto" Regionalism: North-South Relations

If the structure and the membership of APEC do not represent a formal attempt to move toward a Japan-led Asian trading bloc, it actually could be the flip side of the same coin, some analysts have suggested. That is, APEC might be at least partially a reaction against the increasing dominance of Japan in East and Southeast Asia. Thus, in this view, APEC is not only a response to the move toward European integration but also a reflection of the desire by the United States and some Asian nations to counterbalance Japan's economic strength in Asia.

This argument suggests that efforts toward formal integration or the conclusion of an Asian free trade pact are not essential to assess whether the world is moving toward economic regionalism. Rather, the dynamics of North-South relations are evolving in such a way as to create dependence by developing Asian countries on Japan's economic resources. Fear that economic linkages may translate into dependence leads to a certain amount of ambivalence by Asian countries about Japanese economic activities. Although Asian developing nations actively encourage Japanese aid and investment, they also are wary of the possibility that financial ties may evolve into Japanese hegemony.

Thus, the second type of regionalism does not hinge as much on the development of trading blocs, per se, but on the patterns of dependence and interdependence that are evolving among developed and developing countries. This involves a number of factors -- including the patterns of Japanese direct investment in Asia, the decreasing U.S. commitment to the area and the importance of Japan as the region's primary aid donor.

Investment - The extreme version of this argument is that the rise of Japanese investment in Asia will lead to a regional -- perhaps neo-imperialist -- "yen bloc" that will reinforce Japan's economic strength. A more moderate view considers Japanese direct investment in Asia as a harbinger of a regional division of labor. In this scenario the linkages among Southeast Asian subsidiaries of Japanese multinational corporations could shape the development of national industrial structures -- possibly squeezing out firms of nonregional industrialized nations, such as the United States.

There is some evidence that Japanese businessmen and policymakers are exploring the feasibility of a sort of division-of-labor strategy. According to the Far Eastern Economic Review, some Ministry of International Trade and Industry officials believe that intraregional trade may increase more rapidly if Southeast Asian countries avoid creating industrial structures that duplicate each other's efforts, which would force head-to-head competition. Indeed, this has been one of the major obstacles facing Asean's attempts to achieve regional integration: because the member countries' economies are so similar, they tend to compete with one another rather than seize opportunities for intra-Asean trade and investment. Thus, participants at APEC's first conference in Canberra agreed to conduct a study of ways to carry out an industrywide division of labor among member nations.[3]

Seen by some analysts as even more significant are the efforts of the Japanese private sector in creating a regional division of labor. In its 1987 white paper on international trade and investment, MITI noted the "growing tendency for Japanese industry, especially the electrical machinery industry, to view the Pacific Region as a single market from which to pursue a global corporate strategy." Moreover, the media have focused on the efforts of Japan's automotive industry to set up a series of cross-supply arrangements among its Southeast Asian affiliates. The idea is to take advantage of the economies of scale that can be reaped from eliminating duplicative efforts within Southeast Asian countries.

Thus, Mitsubishi Motors Corp. (which reportedly pioneered the division-of-labor strategy) has established an arrangement by which its Thai affiliate

[3]Far Eastern Economic Review, May 3, 1990.

buys stamped metal parts and electronic components from a MMC joint venture in Malaysia. Similarly, in September 1989 Toyota Motor Corp. announced that it expected its Southeast Asian affiliates to reach trade volumes of $100 million by 1992 or 1993.[4] Toyota's plans include the manufacture of transmissions in the Philippines, diesel engines in Thailand and steering components in Malaysia. Nissan Motor Co., Ltd. reportedly has a similar division-of-labor scheme.

The reaction of Southeast Asian nations, with the exception of Indonesia, thus far has been guardedly positive. Thailand, the Philippines and Malaysia have decided to participate in a "brand-to-brand complementation scheme" through which each will reduce its tariffs by no less than 50 percent on automotive components made by the other participants.[5] Although Japanese motor vehicle manufacturers originally planned to include Indonesia in the cross-supply arrangements, Jakarta as yet has not agreed to participate. This could be because Indonesia, with some of the lowest-cost labor among Asean nations, reportedly fears it would end up manufacturing labor-intensive, low value-added components. In this case, it might gain less from the scheme than other Asean countries. Moreover, this type of division of labor might have a negative effect on Indonesia's trade balance.

The efforts of Japan's automotive manufacturers have prompted some speculation that a regionwide motor vehicle industry is being created. Others have stressed, however, that these attempts to create a division of labor have not been replicated to the same extent by Japanese corporations in other industries. Too, Asian developing countries actively have sought investment by American and other foreign firms -- not only to gain additional capital but also to counterbalance the influence of Japan's private sector. To conclude from the efforts of the auto companies that Asia is becoming an integrated market dominated by Japan would be premature. Still, these initial efforts to implement a division-of-labor strategy have captured the attention of analysts who are attempting to gauge the likelihood that the world will evolve (or devolve) into economic blocs.

Economic Assistance - Aid is another area in which there is some ambivalence regarding Japan's role. The rising importance of Japan's development assistance to Asia is indisputable. Both the United States and the governments of developing Asian countries have encouraged Tokyo to expand assistance for Asian economic development. At the same time, Washington's commitment to the region has diminished as it has shifted its attention elsewhere. For example, at the beginning of the 1970s bilateral aid to Asian countries accounted for nearly 50 percent of all (bilateral, multilateral and unallocated) U.S. development assistance. OECD figures indicate that by 1987 the U.S. amount had dropped to about 10 percent. By contrast, bilateral aid to Asia in 1987 made up roughly 50 percent of total Japanese aid.

Moreover, Tokyo repeatedly has stressed that -- although it will attempt to expand its aid flows to other geographic regions -- Asia will continue to have a special place in Japan's aid program. Looking only at total bilateral flows, Asia consistently receives between 60 and 70 percent of Japan's annual aid disbursements. In 1988, for example, Asia received 63 percent of Japan's

[4]Far Eastern Economic Review, February 15, 1990.

[5]Ibid.

aid. Moreover, the dollar value of aid to Asia soared from $2.5 billion in 1986 to $4 billion in 1988 (see JEI Report No. 41A, October 27, 1989). In the latter year nine of Japan's top 10 aid recipients were Asian countries (see Table 1).

Table 1: Major Recipients of Japan's Official Development Assistance, 1988

(in millions of dollars)

Country	Amount
Indonesia	$985
China	674
Philippines	535
Thailand	361
Bangladesh	342
Pakistan	302
Myanmar (formerly Burma)	260
Sri Lanka	200
India	180
Egypt	173

Note: Net disbursement basis.

Source: Ministry of Foreign Affairs

Thus, while Japan's aid to Asia is expanding, alternative sources of development assistance appear to be drying up, as in the U.S. case, or they never were well-established. With a few exceptions European nations have demonstrated little commitment to providing economic assistance to Asia. The European Community traditionally has emphasized assistance for African, Caribbean and Pacific commodity-producing countries.

More recently, EC attention has been focused on Eastern Europe. For example, the amount of economic assistance the EC plans to allocate in 1990 to just two Eastern European countries -- Poland and Hungary -- is less than that slated for all of Asia, according to the Far Eastern Economic Review.[6] Too, some EC members (such as Spain) that view Asian developing countries as competitors have lobbied, thus far unsuccessfully, to slash aid to the region. At any rate, it appears safe to conclude that EC policymakers for the time are preoccupied with events in Eastern Europe. Again, this leaves Japan as the major supplier of development capital to Asia.

It is not a situation with which everyone is comfortable. The predominant presence of Japan as an Asian aid donor has fueled fears that Tokyo's influence in the region is becoming too strong. This is perhaps best illustrated by the nature of the controversy over the Asian Development Bank's proposed Asian Finance and Investment Corp. (see JEI Report No. 23A, June 16, 1989). Similar to the World Bank's International Finance Corp., AFIC would use ADB and

[6] Ibid.

private bank funds to make loans and take equity stakes in private companies in member developing nations.

The United States and some European countries have expressed concern that AFIC would give the Japanese financial community an even greater role in the rest of Asia. Japanese financial institutions originally planned to contribute roughly 40 percent of AFIC's initial capital. However, other industrialized countries, especially the United States and West Germany, pressured Japan to lower the figure to about 30 percent of the initial $130 million capitalization, while American and European firms agreed to contribute 30 percent, the ADB 25 percent and non-Japanese Asian financial institutions 15 percent (see JEI Report No. 31B, August 11, 1989).

The European Factor

A corollary of this North-South view of regionalism has been applied to the future of Europe. Specifically, some analysts have suggested that European events may proceed in such a way as to integrate Eastern Europe with Western Europe. Thus, a unified Europe eventually may include the members of the European Community, the European Free Trade Association and the Eastern European members of Comecon (Council of Mutual Economic Assistance). This argument suggests that EC countries will take a leading aid and investment role in Eastern Europe, while Japan and the United States will assume a less significant economic presence there.

Evidence for this argument remains fuzzy at best. The changes sweeping Eastern Europe are too recent to allow reliable predictions about the future of foreign economic activity in the region. Current indications are that Japanese firms like their American counterparts, remain cautious about committing money to Eastern Europe, despite the number of businessmen making fact-finding visits. Prime Minister Toshiki Kaifu has announced Tokyo's intention to assist Eastern European nations in their economic development -- suggesting that Japan has a special role to play since the situation in the region is comparable to Japan's postwar experience (see JEI Report No. 3A, January 19, 1990).

Despite the wait-and-see attitude of most Japanese and American companies, European policymakers are concerned that investment ventures in Eastern Europe will be used by Japanese and other non-European firms to acquire a foothold in an integrated EC market. French journalist Rene Pascal, for example, has asserted that, "[i]t is apparent that Japan wants to use Eastern Europe as a gateway into an integrated European Community."[7] The possibility that this will happen has caused some worries that EC countries will take action to cut off this form of access.

If this occurs, it is difficult to predict how much nonregional interest in Eastern Europe will be sustained. It is possible that Japanese and U.S. manufacturers will be attracted by some of the features of the Eastern European investment climate -- including wage levels that are lower than certain Asian countries, a capable labor force and government-provided investment incentives. However, Eastern Europe lacks a large pool of engineers and suffers from shortages of necessary parts and equipment. If the European Community restricts

[7] Japan Economic Journal, January 27, 1990.

imports of products produced in Eastern Europe, it is by no means clear that Japanese and American firms will continue to show even the cautious interest that they have demonstrated thus far. If this occurs, the European Community likely will be the dominant actor in the region, thereby reinforcing the trend toward regionalism.

Implications of North-South Regionalism

Although the argument remains largely in the realm of speculation, some political analysts are suggesting that the liberalization of Eastern Europe will create a pool of inexpensive labor for the Continent -- a characteristic that has been absent more in Europe than in other regions. In classical dependency terms this means that a "core" and a "periphery" will exist in all the potential trading blocs. Thus, the emerging "North-South regionalism" can be defined as a situation in which developing countries in Asia would grow ever more dependent on Japan; Eastern European nations rely on Western Europe for trade, aid and investment; and Latin American nations look primarily to the United States. Trade and investment opportunities among industrialized nations may not necessarily diminish, but the pattern of industrialized/developing country relations would be structured informally along regional lines.

Analysts who believe this scenario is a possibility have suggested that North-South regionalism could work to the economic disadvantage of the United States. While developing countries in all parts of the world face some economic hardships, those in Southeast Asia generally are considered to show the most potential. Anxious to join the newly industrialized economies (South Korea, Singapore, Taiwan and Hong Kong) are such Southeast Asian countries as Malaysia and Thailand, which already are being called the "new NIEs." Too, although the economies of Eastern Europe confront dire problems, the potential of an integrated Europe is huge. Conversely, the economic stagnation and the debt crises facing many Latin American nations have prompted some observers to suggest that closer U.S.-Latin American economic ties will not be nearly as advantageous to the United States as intra-Asian linkages will be to Japan. In this view economic regionalism might lead not just to a drop in global efficiency but to a relatively greater drop for the United States than for other industrialized countries.

Regionalism or Internationalism?

Japan's influence may indeed be strong in Asia, but this is not necessarily a sign of regionalism. An alternative explanation is that the entire world is becoming more interdependent. Indeed, skeptics of regionalism arguments stress that economic indicators give no reason to believe that Asian countries are primarily dependent on Japan, except perhaps for aid.

Although Table/2 indicates that Asean nations conduct roughly 50 percent of their trade within Asia, only Indonesia appears to rely more heavily on Japan than on other industrial countries for exports and imports. Looking only at trade statistics, however, begs a question: how tight are the ties that are created by trade among Japanese-affiliated companies in developing Asian nations? It is very difficult to gather the data to answer this question, but a look at the structure of foreign investment in Asian countries may offer some insight as to the dependence of Asian countries on Japanese capital.

Table 2: Breakdown of Asean Trade Flows by Region, 1988*

Country	Japan	United States	Europe	Other Asia
Indonesia	34.8%	14.5%	16.4%	23.6%
Malaysia	19.6	17.5	14.1	37.7
Philippines	18.5	27.4	15.9	24.8
Singapore	15.6	19.5	14.7	37.3
Thailand	13.6	18.3	18.9	28.8

*Excluding Brunei.

Source: International Monetary Fund, Direction of Trade Statistics Yearbook 1989.

Japanese direct investment is extremely important to Asia, especially to the more advanced Asean countries. Still, it has not replaced investment by other nations. Non-Asian countries continue to make new investments (and to expand existing ventures) in Southeast Asia -- although not to the same degree as Japan. Japan's influence is quite clear in the cases of Thailand and Malaysia. The Bank of Thailand reports that Japanese companies in the January-June 1987 period accounted for roughly 40 percent of foreign direct investment in the country, while the United States and Europe together made up some 25 percent of the total. In the case of Malaysia, Japan accounted for 31 percent of 1987 foreign direct investment; the United States and Europe together accounted for some 16 percent. In the Philippines, by contrast, the United States is by far the most important foreign investor. As of 1987 new U.S. commitments to the country continued to outpace Japanese investment; moreover, the figure for the United States topped the comparable number for Japan by a ratio of almost four to one.

Perhaps even more important is that Asian countries other than Japan are expanding their investment activities in Asean nations. The NIEs have been active in setting up manufacturing subsidiaries in Asia, especially in lesser developed Asean countries, such as the Philippines and Indonesia. No longer are Japan and the United States unquestionably the most important investors in these countries. In fact, press reports have noted that Japan now ranks third among foreign investors in the Philippines -- after the United States and Taiwan. Thus, while intraregional ties form the core of Southeast Asian economic activities, it is by no means clear that Asian developing countries must depend primarily on Japan for private capital.

Nor is it obvious that the NIEs will limit their economic activities to the Asian region. Non-Asian countries -- especially the United States -- already are major export markets for Taiwan, South Korea, Singapore and Hong Kong. There also is some evidence that these countries are getting ready to take advantage of the opportunities emerging in Eastern Europe. According to the Japan Economic Journal, Singapore's Haw Par Brothers Pte Ltd. already has announced plans to set up a joint venture in Poland to import copper and aluminum from there. While it is too soon to tell how extensive such ventures will be, this example at least indicates that Asian firms are not thinking in strictly regional terms.

Conclusion

Arguments regarding economic regionalism remain highly speculative at this point. While seemingly embracing a more regional focus, Europe has not abandoned its links with multilateral forums. And although the United States has concluded two bilateral FTAs, Washington policymakers have stated explicitly that multilateral approaches remain paramount. Bilateral agreements are viewed as supplementing, not replacing, global trade arrangements. Moreover, there is virtually no evidence that Japan is abandoning its economic ties with the United States and Europe in favor of its Asian neighbors -- either through formal regional agreements or via a more gradual shift in trade and investment patterns. Nor is there evidence that Japan now is being locked out of international trade and investment opportunities.

As for the emergence of regionalism structured along North-South lines, the ballot is still out. Unlike the question of formal regional agreements -- where Europe and the United States have been more active than Japan -- evidence for informal North-South regionalism is cited more often in connection with Asia than Europe or the Western hemisphere. The situation in Europe is too new to reliably predict the evolution of relations between Western and Eastern Europe. In the Western hemisphere, there have been conscious attempts by the United States and Latin American countries alike to prevent the growth of regionalism or dependency by drawing on nonregional capital for investment and aid. Tokyo's 1987 plan to recycle a portion of its current account surplus to debtor nations was formulated initially with Latin America in mind (see JEI Report No. 41A, October 30, 1987). Too, the evolution of the Brady Plan for debt relief involved much more hands-on participation by Tokyo than did previous attempts to resolve the problem (see JEI Reports No. 38B, October 7, 1988, and No. 9B, March 3, 1989).

Even in Asia economic patterns are far from clear. Asean members do rely heavily on regional markets, investment capital and development assistance. However, the emergence of the NIEs as players in the region is likely to give Asean members opportunities to diversify foreign sources of capital beyond Japan and non-Asian industrialized countries. This presumably would allow developing Asian countries to avoid dependence on Japanese companies and the government for capital -- even if the United States and Europe focus less on Asia than they have in the past.

The fear that economic regionalism is on the horizon may indeed be worthy of attention, especially given the uncertainty regarding the future relationship between Europe and its nonregional trading partners. But it would be premature to assert that regionalism necessarily is on the rise. The evidence -- either in the form of trade statistics or trends in the structure of North-South relations -- simply is not there.

Still, the spotty evidence that does exist and that has given rise to economic regionalism arguments may serve to highlight the fact that more than one option exists for the international economic system. If regionalism is not a foregone conclusion, neither is global free trade. The outcome of such efforts as the Uruguay Round is sure to influence the direction -- one way or the other -- in which the international economic system moves.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.